

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01 SEC-03 AGR-20

SWF-02 DRC-01 /202 W

----- 017881

R 291831Z MAR 74 ZDK
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9187
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 29

BEGIN SUMMARY: THE POUND CONTINUED TO STRENGTHEN AGAINST
THE DOLLAR AS WELL AS OTHER MAJOR EUROPEAN CURRENCIES
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CLOSING ON THURSDAY (MARCH 28) AT \$2.4010 WITH AN AVERAGE

TRADE-WEIGHTED DEPRECIATION OF 17 PERCENT. GOLD FELL BACK OVER THE WEEK TO CLOSE AT \$173.50 ON THURSDAY (MARCH 28). ON TUESDAY CHANCELLOR HEALEY PRESENTED HIS BUDGET AGAINST A BACKGROUND OF SHARPLY RISING RETAIL PRICES AND A GROWING TRADE AND CURRENT BALANCE OF PAYMENTS DEFICIT, BUT A MARKED REDUCTION IN THE RATE OF MONEY SUPPLY GROWTH. THE STOCK MARKET DROPPED SHARPLY IN REACTION TO THE BUDGET. DAYS LOST DUE TO STRIKES REACHED 3.7 MILLION DURING FEBRUARY. END SUMMARY

1. STERLING ENJOYED CONTINUED STRONG DEMAND THIS WEEK AND GAINED 370 POINTS AGAINST THE DOLLAR TO CLOSE AT \$2.4010 ON THURSDAY (MARCH 28). IN GENERAL, THE REACTION TO THE \$2.5 BILLION EURODOLLAR BORROWING AND THE \$1 BILLION INCREASE IN SWAP LINES WITH THE U.S., ANNOUNCED IN THE BUDGET, WAS FAVORABLE. INCREASED DEMAND FOR STERLING TO PAY FOR OIL ALSO HELPED TO KEEP THE RATE UP. STERLING'S AVERAGE TRADE-WEIGHTED DEPRECIATION AGAINST SMITHSONIAN RATES NARROWED FROM 18.3 PERCENT ON FRIDAY (MARCH 22) TO 17 PERCENT ON THURSDAY (MARCH 28). GOLD REACHED ANOTHER NEW HIGH ON FRIDAY (MARCH 22) OF \$177.50 BUT MOVED GENERALLY DOWNWARD OVER THE WEEK TO CLOSE AT \$173.50 ON THURSDAY (MARCH 28), DOWN \$1.50 ON LAST THURSDAY'S CLOSE.

2. ON TUESDAY, MARCH 26, CHANCELLOR HEALEY ANNOUNCED HIS BUDGET AFTER BEING IN POWER A SCARCE THREE WEEKS. DETAILS ANALYSIS AND REACTIONS TO THE BUDGET HAVE BEEN REPORTED SEPARATELY.

3. RETAIL PRICES IN FEBRUARY STOOD 13.2 PERCENT ABOVE FEBRUARY 1973, THE GREATEST RISE IN ANY 12-MONTH PERIOD SINCE WWII. THERE WAS A JUMP OF 1.7 PERCENT IN THE RETAIL PRICE INDEX BETWEEN MID-JANUARY AND MID-FEBRUARY, XJINGING THE INDEX TO 195.1 (JANUARY 1962100, THE OLD INDEX) OR TO 101.7 (JANUARY 1974100, THE NEW BASE YEAR FOR THE INDEX). SINCE OCTOBER - THE BASE MONTH FOR THRESHOLD AGREEMENT - THE RETAIL PRICE INDEX HAS RISEN BY 5.2 PERCENT. THESE AGREEMENTS COME INTO OPERATION WHEN THE INCREASE FROM OCTOBER REACHES 7 PERCENT.

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4. IN FEBRUARY, THE CURRENT ACCOUNT IS ESTIMATED TO HAVE BEEN IN DEFICIT BY 347 MILLION POUNDS WITH A RECORD VISIBLE TRADE DEFICIT OF 429 MILLION POUNDS (S.A., F.O.B., B/P BASIS) AND AN INVISIBLES SURPLUS OF 82 MILLION POUNDS (FOR DETAILS SEE LONDON 3833).

5. ON THE BROADER DEFINITION OF THE MONEY STOCK (M3) THE

FIGURES SHOW AN INCREASE OF ABOUT 440 MILLION POUNDS (S.A.
OR A RISE OF 1.3 PERCENT IN THE FIVE-WEEK PERIOD TO MID-
FEBRUARY. M1 FELL BY 75 MILLION POUNDS OR 0.6 PERCENT ON
A SEASONALLY ADJUSTED BASIS. THE SLOWDOWN IN THE RATE OF
GROWTH REFLECTS THE DROP IN LENDING RECENTLY ANNOUNCED BY
THE LONDON CLEARING BANKS.

6. THE STOCK MARKET HAS FALLEN SHARPLY ALL WEEK. BY
THURSDAY, THE FINANCIAL TIMES ORDINARY SHARE INDEX WAS
DOWN TO 272.5 WHICH IS ITS LOWEST LEVEL SINCE OCTOBER
1962. THE DROP IS IN REACTION TO THE BUDGET WHICH DOES
LITTLE TO ENCOURAGE INVESTMENT AND RAISED THE CORPORATE
TAX RATE TO 52 PERCENT AS WELL AS FEARS OF CONTINUED IN-
FLATION.

7. DAYS LOST THROUGH INDUSTRIAL STRIKES ROSE TO 3,682,000
N/A
SOHM

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CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

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L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01 SEC-03 AGR-20

SWF-02 DRC-01 /202 W
----- 013412

R 291831Z MAR 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9188
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
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IN FEBRUARY COMPARED TO 213,000 IN JANUARY. THIS JUMP WAS
DUE TO THE MINERS' STRIKE BUT IS CONSIDERABLY LESS THAN
THE 6,514,000 DAYS LOST IN FEBRUARY 1972 DURING THE
MINERS' STRIKE THEN.

8. THE FORWARD DISCOUNTS ON STERLING NARROWED AT MID-WEEK
BUT WIDENED ON THURSDAY (MARCH 28).

	3/21	3/28	CHANGE
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1 MONTH	1.35-1/2	1.80	UP 0.44-1/2
3 MONTHS	5.01	5.05	UP 0.04
6 MONTHS	9.49	9.77-1/2	UP 0.28-1/2

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES ROSE STEADILY AT ONE AND
THREE MONTHS BUT FELL BACK SLIGHTLY AT SIX MONTHS DURING
THE WEEK.

	3/21	3/28	CHANGE
1 MONTH	15-1/8	15-13/16	UP 11/16
3 MONTHS	15-5/8	16-1/16	UP 7/16
6 MONTHS	15-1/2	15-5/8	UP 1/8

10. EURODOLLAR PEAKED ON TUESDAY (MARCH 26) AND FELL BACK
SOMEWHAT TOWARDS THE END OF THE WEEK.

	3/21	3/28	CHANGE
1 MONTH	9-3/8	9-7/8	UP 1/2
3 MONTHS	9-3/8	9-7/8	UP 1/2
6 MONTHS	9-3/8	9-7/8	UP 1/2

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 12.5
PERCENT ON FRIDAY, MARCH 29, 1974.

SOHM

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Message Attributes

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TAGS: ECON, UK, XG
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Type: TE
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